

**EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2010**

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Saxton	Board Member	Dec. 31, 2015
Dan Cooper	Board Member	Dec. 31, 2010
John Wright	Board Member	Dec. 31, 2011
Nick Steinkamp	Board Member	Dec. 31, 2012
Rick Brennan	Board Member	Dec. 31, 2014
John Bird	City Administrator/Superintendent	
John D. Brown	Attorney	

Burdorf, Parrott And Associates, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2010, and the related combining statement of revenues, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. In addition, the Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions as described in Note 8. The effect on the financial statements of the preceding practices is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2010 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 19, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 20 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parrott And Associates, P.C.

January 17, 2011

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities' financial activities for the year ended June 30, 2010. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets decreased \$234,447 or 2.0%. This decrease is primarily the result of reporting a \$316,347 risk under loan guarantee expense in the Gas fund and \$319,466 in maintenance expenses related to the settlement of the 2009 S. Grand project reported in the Water fund (\$159,733) and Sewer fund (\$159,733).
- The Utilities' loss on total ending assets was .8%.
- The Utilities' total revenues were \$3,538,378 in 2010 compared to \$3,869,100 in 2009. This \$330,722 decrease in revenues resulted primarily from a decline in Gas fund natural gas price declines.
- During the year ended June 30, 2010, the Utilities had total expenses, excluding depreciation, of \$3,211,400 compared to \$3,034,660 for the year ended June 30, 2009. In the absence of the untimely expenses noted above in comments on net assets, the Utilities' income before transfers increased \$18,050.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on pages 10 and 11) provide information about the activities of the Utilities as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities as a Whole

Our analysis of the funds maintained by the Utilities as a whole begins on page 5. One of the most important questions asked about the Utilities' finances is, "Is the Emmetsburg Municipal Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets (the difference between assets and liabilities) as one way to measure the Utilities' financial health, or financial position. Over time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity, a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the Utilities as a whole. The Utilities' funds use the following accounting approaches:

Proprietary funds - All of the Utilities' expenses incurred is for the cost of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in a proprietary fund. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows.

The Funds Maintained by the Utilities as a Whole

For the years ended June 30, 2010 and 2009, net assets changed as follows:

Summary of Operations and Changes in Net Assets

	2010	2009
Net operating revenues	\$ 3,501,261	3,814,742
Net operating expenses	3,212,300	3,362,970
Net operating income	288,961	451,772
Non-operating revenue (expenses)	(430,438)	(60,505)
Transfers to primary government	(92,970)	(90,587)
Net increase in net assets	\$ (234,447)	300,680

Net Assets

	2010	2009
Assets:		
Current and other assets	\$ 6,025,812	5,618,169
Capital assets	11,012,703	10,083,284
Total assets	\$ 17,038,515	15,701,453
Liabilities:		
Current liabilities	\$ 905,306	626,250
Non-current liabilities	4,356,453	3,064,000
Total liabilities	5,261,759	3,763,218
Net assets:		
Invested in capital assets (net of debt)	6,454,358	6,802,284
Unreserved	5,322,398	5,208,919
Total liabilities and net assets	\$ 17,038,515	15,701,453

	Revenues	
	2010	2009
Operating:		
Residential sales	\$ 1,525,801	1,619,179
Commercial sales	1,141,014	1,254,389
Public authority sales	240,398	276,090
Customer fees	502,392	499,260
Interfund services provided	41,987	48,744
Penalties	11,331	11,518
Other	38,338	105,562
Total operating	3,501,261	3,814,742
Non-operating revenues:		
Interest income	37,117	54,358
Total revenues	\$ 3,538,378	3,869,100

For the funds maintained by the Utilities, total revenues for June 30, 2010 decreased by \$330,722 from total revenues for the year ended June 30, 2009. The decrease in revenue was primarily due to a decrease in natural gas billings.

	Expenses	
	2010	2009
Operating:		
Personal services	\$ 368,410	359,923
Contractual	255,222	283,241
Materials, supplies and maintenance	1,953,608	2,094,652
Utilities	96,279	113,613
Depreciation	468,455	443,173
Uncollected accounts	6,052	7,759
Interfund services used	64,274	60,789
Total operating	3,212,300	3,362,970
Interest expense	151,208	114,863
Risk under loan guarantee expense	316,347	-
Total expense	\$ 3,679,855	3,477,833

The total expenses increased by \$202,022 from the prior year, due primarily to the \$316,347 risk under guarantee expense related to the assumption of 50% of USDA Rural Development and Iowa Trust and Savings Bank loans outstanding related to the purchase of business park land and \$319,466 in additional S. Grand project maintenance expenses, net of a \$593,050 decrease in the cost of natural gas purchased.

Capital Asset and Debt Administration

Capital Assets

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	336,535	3,520	-	340,055
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	861,647	9,202	-	870,849
Total asset costs	2,334,830	12,722	-	2,347,552
Less accumulated depreciation	(1,599,653)	(58,298)	-	(1,657,951)
Gas Department assets, net	<u>\$ 735,177</u>	<u>(45,576)</u>	<u>-</u>	<u>689,601</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,552,422	86,090	-	4,638,512
Distribution system	1,839,155	-	-	1,839,155
Equipment, meters & mains	568,495	42,351	-	610,846
Total asset costs	7,027,139	128,441	-	7,155,580
Less accumulated depreciation	(2,211,023)	(217,898)	-	(2,428,921)
Water Department assets, net	<u>\$ 4,816,116</u>	<u>(89,457)</u>	<u>-</u>	<u>4,726,659</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,352,105	1,192,438	-	5,544,543
Distribution system	2,808,150	61,065	-	2,869,215
Equipment, meters & mains	538,595	29,897	-	568,492
Total asset costs	7,783,392	1,283,400	-	9,066,792
Less accumulated depreciation	(3,278,090)	(192,259)	-	(3,470,349)
Construction in progress	26,689	-	(26,689)	-
Sanitation Department assets, net	<u>\$ 4,531,991</u>	<u>1,091,141</u>	<u>(26,689)</u>	<u>5,596,443</u>

Continued on the next page

	Balance July 1, 2008	Additions	Disposals	Balance June 30, 2009
Gas Department:				
Land	\$ 1,039	-	-	1,039
Structures & plant	333,319	3,216	-	336,535
Distribution system	1,135,609	-	-	1,135,609
Equipment, meters & mains	832,404	29,243	-	861,647
Total asset costs	2,302,371	32,459	-	2,334,830
Less accumulated depreciation	(1,543,475)	(56,178)	-	(1,599,653)
Gas Department assets, net	<u>\$ 758,896</u>	<u>(23,719)</u>	<u>-</u>	<u>735,177</u>
Water Department:				
Land	\$ 67,067	-	-	67,067
Structures & plant	4,552,422	-	-	4,552,422
Distribution system	1,771,540	67,615	-	1,839,155
Equipment, meters & mains	553,355	15,140	-	568,495
Total asset costs	6,944,384	82,755	-	7,027,139
Less accumulated depreciation	(2,002,030)	(208,993)	-	(2,211,023)
Water Department assets, net	<u>\$ 4,942,354</u>	<u>(126,238)</u>	<u>-</u>	<u>4,816,116</u>
Sanitation Department:				
Land	\$ 84,542	-	-	84,542
Structures & plant	4,348,889	3,216	-	4,352,105
Distribution system	2,608,735	199,415	-	2,808,150
Equipment, meters & mains	501,389	37,206	-	538,595
Total asset costs	7,543,555	239,837	-	7,783,392
Less accumulated depreciation	(3,100,088)	(178,002)	-	(3,278,090)
Construction in progress	-	26,689	-	26,689
Sanitation Department assets, net	<u>\$ 4,443,467</u>	<u>88,524</u>	<u>-</u>	<u>4,531,991</u>

Depreciation expense for each department is presented on page 11.

Debt

Net debt increased during the year ended June 30, 2010 by \$1,277,345. The Gas fund assumed \$316,347 in debt under 50% loan guarantee for Emmetsburg Community Development Corporation in 2010. The Sewer fund also issued \$1,182,611 in debt to finance treatment facility improvements in 2010.

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Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities in setting its fiscal 2010 budget. Due to the Utilities' large concentration of residential customers, weather normally impacts revenue to a greater degree than do economic cycles. However, lately there have been large fluctuations in the natural gas market, which makes it difficult to budget gas costs and gas revenues. The 2010 budget failed to anticipate the accounting expense of assuming \$316,347 in Emmetsburg Community Development Corporation loans under loan guarantee arrangements. In addition, the unfavorable settlement of the S. Grand project in the amount of \$319,466 was not anticipated in the 2010 budget. The Utilities' fiscal 2011 budget has decreased from fiscal 2010, due primarily to anticipated decreases in the natural gas market.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Net Assets
Business-Type Activities
June 30, 2010

	Gas Fund	Water Fund	Sanitation Fund	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,712,500	1,215,143	665,853	5,593,496
Accounts receivable	(9,131)	80,498	68,549	139,916
Current portion of notes receivable	7,237	-	-	7,237
Other receivables	596	197	1,266	2,059
Accrued billing	3,888	5,881	6,444	16,213
Interfund receivable	16,951	3,108	43,536	63,595
Due from primary government	2,107	645	645	3,397
Current portion of primary government - Urban Renewal Tax Increment Revenue Bond	1,152	1,344	1,344	3,840
Prepaid expenses	5,839	14,798	18,656	39,293
Total current assets	3,741,139	1,321,614	806,293	5,869,046
Noncurrent assets:				
Restricted assets - cash and cash equivalents	58,462	12,029	-	70,491
Notes receivable	17,763	-	-	17,763
Due from primary government - Urban Renewal Tax Increment Revenue Bond	7,955	9,281	9,281	26,517
Loan fees (net of \$8,405 amortization)	-	26,000	15,995	41,995
Total noncurrent assets	84,180	47,310	25,276	156,766
Capital assets:				
Land	1,039	67,067	84,542	152,648
Structures and plant	340,055	4,638,512	5,544,543	10,523,110
Distribution system	1,135,609	1,839,155	2,869,215	5,843,979
Equipment, meters and mains	870,849	610,846	568,492	2,050,187
	2,347,552	7,155,580	9,066,792	18,569,924
Less: Accumulated depreciation	(1,657,951)	(2,428,921)	(3,470,349)	(7,557,221)
Net capital assets	689,601	4,726,659	5,596,443	11,012,703
Total assets	\$ 4,514,920	6,095,583	6,428,012	17,038,515

See notes to the financial statements.

	Gas Fund	Water Fund	Sanitation Fund	Total
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 35,804	14,908	91,912	142,624
Other liabilities payable	5,190	-	-	5,190
Current portion of long-term debt	2,511	115,000	84,381	201,892
Accrued vacation pay	2,247	5,551	2,577	10,375
Accrued interest payable	10,236	5,805	7,061	23,102
Interfund payable	3,108	51,473	9,014	63,595
Customer deposits	58,463	12,028	-	70,491
Due to primary government	43,141	172,512	172,384	388,037
Total current liabilities	160,700	377,277	367,329	905,306
Long-term debt (net of current portion above)	309,223	2,207,000	1,840,230	4,356,453
Total liabilities	469,923	2,584,277	2,207,559	5,261,759
Net Assets:				
Investment in capital assets (net of related debt)	377,867	2,404,659	3,671,832	6,454,358
Unrestricted	3,667,130	1,106,647	548,621	5,322,398
Total net assets	4,044,997	3,511,306	4,220,453	11,776,756
 Total liabilities and net assets	 \$ 4,514,920	 6,095,583	 6,428,012	 17,038,515

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Business-Type Activities
Year Ended June 30, 2010

	Gas Fund	Water Fund	Sanitation Fund	Total
Operating revenues:	\$			
Residential sales	1,000,360	253,765	271,676	1,525,801
Commercial sales	840,322	144,220	156,472	1,141,014
Public authority sales	197,964	23,023	19,411	240,398
Customer fees	138,600	171,660	189,000	499,260
Interfund services provided	40,060	1,928	-	41,987
Penalties	11,331	-	-	11,331
Other	17,534	13,337	10,599	41,470
Total operating revenues	2,246,171	607,933	647,157	3,501,261
Operating expenses:				
Personal services	127,185	130,643	110,582	368,410
Contractual	78,135	72,808	104,279	255,222
Materials, supplies and maintenance	1,494,104	252,695	206,809	1,953,608
Utilities	6,309	30,131	59,839	96,279
Depreciation	58,298	217,898	192,259	468,455
Uncollectible accounts	2,306	1,748	1,998	6,052
Interfund services used	36,732	13,771	13,771	64,274
Total operating expenses	1,803,069	719,694	689,537	3,212,300
Operating income	443,102	(111,761)	(42,380)	288,961
Non-operating revenues and (expenses):				
Interest income	23,367	9,351	4,399	37,117
Interest expense	(25,058)	(80,450)	(45,700)	(151,208)
Risk under loan guarantee expense	(316,347)	-	-	(316,347)
Total non-operating revenues (expenses)	(318,038)	(71,099)	(41,301)	(430,438)
Income (loss) before transfers	125,064	(182,860)	(83,681)	(141,477)
Transfers to Primary Government	(80,970)	(6,000)	(6,000)	(92,970)
Change in net assets	44,094	(188,860)	(89,681)	(234,447)
Net assets at beginning of year	4,000,903	3,700,166	4,310,134	12,011,203
Net assets at end of year	\$ 4,044,997	3,511,306	4,220,453	11,776,756

See notes to the financial statements.

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Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Statement of Cash Flows
Business-Type Activities
Year Ended June 30, 2010

	Gas Fund	Water Fund	Sanitation Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,231,285	581,496	634,437	3,447,218
Cash payments to suppliers for goods and services	(1,574,428)	(358,355)	(306,039)	(2,238,822)
Cash payments to employees for services	(128,003)	(128,804)	(110,825)	(367,632)
Cash received for interfund services provided	40,060	1,928	-	41,988
Cash paid for interfund services used	(36,732)	(13,771)	(13,771)	(64,274)
Other income	17,534	13,337	10,599	41,470
Net cash provided by operating activities	549,716	95,831	214,401	859,948
Cash flows from noncapital financing activities:				
Cash from or to primary government funds	(3,098)	97,101	113,505	207,508
Collection of loan receivable - primary government	1,107	1,291	1,291	3,689
Transfers from or to primary government funds	(80,970)	(6,000)	(6,000)	(92,970)
Net cash provided (used) by noncapital financing activities	(82,961)	92,392	108,796	118,227
Cash flows from capital and related financing activities:				
Loan proceeds	-	-	1,182,611	1,182,611
Loan payments	(4,613)	(112,000)	(105,000)	(221,613)
Interest and loan fees paid	(14,822)	(79,105)	(50,132)	(144,059)
Acquisition and construction of capital assets	(12,722)	(128,441)	(1,256,711)	(1,397,874)
Net cash provided (used) for capital and related financing activities	(32,157)	(319,546)	(229,232)	(580,935)
Cash flows from investing activities:				
Interest on cash investments and notes receivable	23,367	9,351	4,399	37,117
Collection of notes receivable from others	7,895	-	-	7,895
Net cash provided (used) by investing activities	31,262	9,351	4,399	45,012
Net increase (decrease) in cash and cash equivalents	465,860	(121,972)	98,364	442,252
Cash and cash equivalents, beginning of year	3,305,102	1,349,144	567,489	5,221,735
Cash and cash equivalents, end of year	\$ 3,770,962	1,227,172	665,853	5,663,987
Reconciliation:				
Cash and cash equivalents				
Unrestricted and undesignated	\$ 3,712,500	1,215,143	665,853	5,593,496
Restricted	58,462	12,029	-	70,491
	\$ 3,770,962	1,227,172	665,853	5,663,987

See notes to the financial statements.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 443,102	(111,761)	(42,380)	288,961
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	58,298	217,898	192,259	468,455
(Increase) decrease in operating assets:				
Accounts and other receivables	41,602	(10,033)	558	32,127
Accrued billing	974	151	(681)	444
Prepaid expenses	83	(29)	(1,686)	(1,632)
Increase (decrease) in operating liabilities				
Accounts payable	4,257	(2,692)	66,574	68,139
Other liabilities	(220)	-	-	(220)
Accrued vacation pay	(818)	1,839	(243)	778
Customer deposits	2,438	458	-	2,896
Net cash provided by operating activities	<u>\$ 549,716</u>	<u>95,831</u>	<u>214,401</u>	<u>859,948</u>
Supplemental Information				
Schedule of Noncash Investing and Financing Transactions				
Assumption of debt under loan guarantee	\$ 316,347	-	-	316,347
Risk under loan guarantee expense	<u>(316,347)</u>	<u>-</u>	<u>-</u>	<u>(316,347)</u>
	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

Emmetsburg Municipal Utilities

Component Unit of the City of Emmetsburg, Iowa

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for by using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utilities' funds. Deposits are stated at cost.

The carrying amount of the Utilities' deposits at June 30, 2010 was \$5,663,987 and the bank balance was \$5,459,984. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts.

C. Accounts and Notes Receivable

Trade accounts and notes receivable are reported at their estimated net realizable value. Collection losses have historically been immaterial, and the Utilities, based on its review of material balances outstanding, have elected no valuation allowance at June 30, 2010. The Utilities typically will write off any balance that remains after it has exhausted all reasonable collection efforts and concludes that additional collection efforts are not cost-justified.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities' reported net assets are segregated into Investment in capital assets (net of related debt) and unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

Structure and Plant	20 – 50 years
Distribution System	50 years
Equipment, Meters and Mains	3 – 50 years

E. Designated funds

Designated funds include cash set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Utilities is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$20,734, \$19,544 and \$19,174, respectively, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

2. Note Receivable

On October 15, 2008, the Utilities entered into a loan agreement with a local manufacturing business to loan the business \$37,500. The note is non-interest bearing and is receivable in monthly installments of \$658, with a maturity date of October 15, 2013. The principal balance receivable totaled \$25,000 at June 30, 2010.

3. Primary Governments - Urban Renewal Tax Increment Revenue Bond Receivable

The City of Emmetsburg issued the Emmetsburg Municipal Utilities a \$40,000 Urban Renewal Tax Increment Revenue Bond dated October 11, 2006. Principal on this Bond shall bear interest at the rate of 4% per annum. The Bond is due in 20 equal semi-annual installments of \$2,508 each December 1, and June 1 commencing December 1, 2007. The Bond matures on June 1, 2017. The principal balance receivable totaled \$30,357 at June 30, 2010.

4. Designated funds

The composition of Board designated funds included in cash and cash equivalents, at June 30, 2010 is as follows:

	<u>Gas</u>	<u>Water</u>	<u>Sanitation</u>
Capital Improvements and Replacement	\$ 1,003,754	770,329	358,862
Medical Reimbursement	39,733	4,138	4,137
Industrial Development	283,231	304,682	59,301
	<u>\$ 1,326,718</u>	<u>1,079,149</u>	<u>422,300</u>

5. **Restricted Assets – Cash and Cash Equivalents**

Restricted assets are comprised of cash in bank that can be used only to repay customer deposits.

6. **Changes in Capital Assets**

A summary of changes in capital assets follows:

	Balance			Balance
	<u>7/1/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/10</u>
Land	\$ 152,648	-	-	152,648
Structures & plant	9,241,062	1,282,048	-	10,523,110
Distribution system	5,782,914	61,065	-	5,843,979
Equipment, meters & mains	1,968,737	81,450	-	2,050,187
Construction in progress	26,689	-	(26,689)	-
Total	<u>\$ 17,172,050</u>	<u>1,424,563</u>	<u>(26,689)</u>	<u>18,569,924</u>

7. **Long-Term Debt**

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond, Series 2005 due in annual payments of \$102,000 – 179,000 (currently \$115,000) to June 1, 2026, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$2,322,000.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond, Series 2005 MC60R due in annual payments of \$20,000 – 40,000 (currently \$25,000) to June 1, 2025, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$480,000.

\$202,000 Sludge Digestion Improvement Bond, Series 1998B due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$92,000.

\$358,000 Sewer Revenue Bond, Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$20,000) to June 1, 2018, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$170,000.

\$990,000 Sewer Revenue Bond, Series 2009A due in estimated annual payments of \$28,381 - \$49,766 (currently \$28,381) to June 1, 2030, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$762,611, with an unadvanced commitment available to draw of \$227,389.

\$420,000 Sewer Revenue Bond, Series 2009B due in annual payments of \$1,000 - \$29,000 (currently \$1,000) to June 1, 2030, and interest at 3.00%. At June 30, 2010, the loan balance totaled \$420,000. The loan was made with proceeds made available to the Lender under the American Recovery and Reinvestment Act of 2009 (the "ARRA"). Upon completion of the related project and receipt by the Lender of a Certificate of Completion from the City of Emmetsburg, the loan shall be forgiven in full, by the Lender.

The Utilities is also obligated under a 50% loan liability guarantee related to the financing for the purchase of 58 acres of land for a business park by the Emmetsburg Community Development Corporation ("ECDC"). The guarantee is for 50% of a \$685,000 direct and indirect loan from USDA Rural Development and Iowa Trust and Savings Bank, including 50% of interest due on those loans. During fiscal 2010, ECDC was unable to service the debt and the Utilities assumed 50% of the loan liabilities, which were recorded as a non-operating risk under loan guarantee expense of \$316,347. Original loans under the guarantee are as follows:

\$485,000 USDA Rural Development, due in annual payments of \$699 - \$27,055 (currently \$699) to November 7, 2040 and interest at 4.125%. At June 30, 2010, the Utilities 50% of the loan balance totaled \$220,223.

\$200,000 Iowa Trust and Savings Bank, due in annual payments of \$4,323 - \$16,430 (currently \$4,323) to November 5, 2032 and variable interest at 6.75%. At June 30, 2010, The Utilities 50% of the loan balance totaled \$91,511.

Annual estimated debt service requirements related to the loans are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 201,892	136,615	338,507
2012	225,503	136,505	362,008
2013	230,694	129,615	360,309
2014	240,937	126,452	367,389
2015	247,225	115,172	362,397
2016-2041	<u>3,412,094</u>	<u>805,773</u>	<u>4,217,867</u>
	<u>\$ 4,558,345</u>	<u>1,450,132</u>	<u>6,008,477</u>

8. Employee Benefits and Other Postemployment Benefits (OPEB)

Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$2,000 deductible per individual and a \$4,000 per family co-insurance clause. The Utilities then self-insures \$1,750 of the \$2,000 deductible.

Other Postretirement Benefits (OPEB)

The Utilities operates a single-employer retiree benefit plan, which provides medical/prescription drug benefits for retirees and their spouses. There are eight active and no retired members in the plan. Participants must be age 55 or older at retirement. The benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield of Iowa. Retirees under age 65 pay the same premium for the

benefits as active employees and retirees are required to reimburse the Utilities for any premiums paid under the plan. The contribution requirements of plan members are established and may be amended by the Utilities.

The Utilities did not implement GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from Generally Accepted Accounting Principles. The Amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. Related Party Transactions

The Component Unit bills and collects for garbage and recycling services provided for the Primary Government to its residents. During the year ended June 30, 2010, the Component Unit billed \$405,064 in fees for the Primary Government.

11. Subsequent Events

Events subsequent to June 30, 2010 have been evaluated through January 17, 2011, the date the financial statements were available to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading. Management found no subsequent events to be disclosed.

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**Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Required Supplementary Information
Year Ended June 30, 2010**

**Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual**

	<u>Actual</u>	<u>Budgeted Amounts Original</u>	<u>Final to Actual Variance</u>
Operating revenues	\$ 3,501,261	4,727,850	(1,226,589)
Operating expenses	<u>3,212,300</u>	<u>4,094,784</u>	<u>(882,484)</u>
Operating income	288,961	633,066	(344,105)
Non-operating revenues and (expenses)	(430,438)	-	(430,438)
Transfers to Primary Government	(92,970)	(72,587)	(20,383)
Net assets at beginning of year	<u>12,011,203</u>	<u>12,011,203</u>	
Net assets at end of year	\$ <u><u>11,776,756</u></u>	<u><u>12,571,682</u></u>	

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

See Independent Auditors' Report.

Emmetsburg Municipal Utilities
Component Unit of the City of Emmetsburg, Iowa
Combining Schedule of Operating Expenses
Year Ended June 30, 2010

	Gas Fund	Water Fund	Sanitation Fund	Total
Personal services:				
Trustee fees	\$ 1,500	1,500	1,500	4,500
Administrative salaries	11	-	-	11
Office salaries	18,326	18,242	18,242	54,810
Plant labor	82,443	85,205	71,671	239,319
Extra labor	3,621	3,621	1,497	8,739
Overtime	5,488	6,181	4,007	15,676
IPERS	7,222	7,268	6,244	20,734
Payroll taxes	8,574	8,626	7,421	24,621
Total personal services	127,185	130,643	110,582	368,410
Contractual:				
Advertising	3,598	1,830	2,370	7,798
Professional	6,183	8,666	8,948	23,797
Insurance	7,869	19,702	23,189	50,760
Health insurance and risk fund	21,311	33,964	32,972	88,247
Analytical testing and contract	-	2,801	32,397	35,198
Defense group expense	1,857	-	-	1,857
Regulatory commission	14,065	1,806	2,144	18,015
Conference and education	3,947	2,219	1,747	7,913
Regulation and compliance	2,000	1,820	512	4,332
Energy efficiency plan	16,609	-	-	16,609
Collection expense	696	-	-	696
Total contractual	78,135	72,808	104,279	255,222
Materials, supplies and maintenance:				
Cost of natural gas purchased	1,449,087	-	-	1,449,087
Maintenance supplies	4,623	3,118	7,479	15,220
Automotive supplies and expense	4,177	6,825	5,966	16,968
Other equipment supplies and expense	1,184	1,808	6,977	9,969
Computer maintenance and supplies	3,515	3,529	3,275	10,319
Chemicals	-	25,692	-	25,692
Maintenance and materials - mains	16,777	170,960	-	187,737
Treatment plant maintenance	-	6,752	-	6,752
Water well maintenance	-	18,810	-	18,810
Collection system maintenance	-	-	170,311	170,311
Lift station maintenance	-	-	62	62
Office supplies	8,250	7,330	7,266	22,846
Uniforms	727	968	1,218	2,913
Maintenance buildings and grounds	1,565	5,053	2,869	9,487
Miscellaneous	4,199	1,850	1,386	7,435
Total materials, supplies and maintenance	1,494,104	252,695	206,809	1,953,608

See Independent Auditors' Report.

	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Utilities:				
Lift station power	\$ -	-	4,688	4,688
Telephone	2,663	2,954	2,772	8,389
Electric and Gas	3,646	27,177	52,379	83,202
Total utilities	<u>6,309</u>	<u>30,131</u>	<u>59,839</u>	<u>96,279</u>
Depreciation	<u>58,298</u>	<u>217,898</u>	<u>192,259</u>	<u>468,455</u>
Uncollectible accounts	<u>2,306</u>	<u>1,748</u>	<u>1,998</u>	<u>6,052</u>
Interfund services used:				
Administrative fees - Primary Government	36,732	13,771	13,771	64,274
Total interfund services used	<u>36,732</u>	<u>13,771</u>	<u>13,771</u>	<u>64,274</u>
Total operating expenses	<u>\$ 1,803,069</u>	<u>719,694</u>	<u>689,537</u>	<u>3,212,300</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 17, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the reportable condition described in item I-B-10, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Emmetsburg, Iowa and other parties to whom the Emmetsburg Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parnott And Associates, P.C.

January 17, 2011

EMMETSBURG MUNICIPAL UTILITIES

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS:

- I-A-10 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. Over the past years, the Utilities has implemented various procedures to enhance their internal controls. However, due to time and staffing constraints, the Utilities is still unable to fully segregate receipt and posting functions, disbursement preparation and posting functions and reconciliation function from receipt and disbursement functions.
- Recommendation - We realize that the limited number of office employees makes segregation of duties difficult. However, we recommend that the Utility officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances.
- Response and Corrective Action Planned - the Utility will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control. There will be no change until it is fiscally responsible to add additional staff.
- Conclusion - Response accepted.
- I-B-10 Financial Reporting – A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles. For the year ended June 30, 2010, management did not have the expertise internally to analyze complex transactions to ensure that all transactions were properly recorded in the accounting records. As a result, certain material adjustments were required as part of the audit process.
- The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other consideration. We understand that preparing financial statements for a government of your size is normally not preformed by the government's personnel because the cost of training and keeping up with extremely difficult accounting principles is prohibitive. However, we are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.
- Recommendation – Since the Utilities' have determined that it is not cost effective to have a trained governmental accountant on staff to prepare the financial statements, they should implement an education policy to assist management's ability to review, approve and accept responsibility for the financial statements. This education should be directed toward recording complex transactions.

Response – Our education policy allows individuals charged with the accounting function to attend continuing education related to understanding and recording complex transactions.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-10 Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- II-B-10 Certified Budget - Expenditures during the year ended June 30, 2010 did not exceed the budget for the year.
- II-C-10 Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- II-D-10 Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities officials or employees were noted.
- II-E-10 Business Transactions – No business transactions between the Utilities and Utilities' officials or employees were noted.
- II-F-10 Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-10 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-10 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.
- II-I-10 Revenue Bonds / Notes - The Utilities has complied with all requirements of the Loan and Disbursement agreements.

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